

Midsomer Norton Town Council

Internal Audit Report 2022-23 (Final)

Chris Hall

Consultant Auditor

Auditing Solutions Ltd

Background

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to our final review for 2022-23, undertaken at our offices and by visiting the Town Council offices on 22 May 2023 to undertake physical record checks. We would like to thank the Locum Clerk and the Finance Administrator for their help and hospitality during the visit.

Internal Audit Approach

The objective of this final review is to provide an appropriate level of assurance to the Council on their governance and financial procedures for the whole of the financial year 2022-23, in order to provide full and supportable assurances in the Annual Governance and Accountability Return (AGAR) for 2022-23.

In concluding our review for the year, we have had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover is designed to afford reasonable assurance that the Council has appropriate and robust financial systems in place that operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's AGAR process, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

Details of the work undertaken on the Council's accounting and other records during this final review are set out in the following detailed report. It is clear that the loss of both the Clerk and Deputy Clerk in early 2023 has caused considerable disruption to the established control systems, which will need to be re-established when permanent staff are appointed to these important positions.

However, we note and applaud the considerable efforts by the Locum Clerk and the Finance Administrator to keep the financial system going, especially given the pressures of producing the year-end accounts and the large amount of work due to the Town Hall refurbishment. While the level of internal check has understandably slipped we feel that, on balance, the level of control established throughout the financial year is sufficient to offer a reasonable assurance on the accuracy of the accounts as presented. The Council must, however, re-establish the former high level of sound governance and financial control practice as soon as possible in 2023-24 by appointing suitably qualified and experienced staff as soon as possible.

While, under the circumstances, we have not seen the need to make any formal recommendations, we have made a number of observations throughout this report which we would invite the Council to carefully consider.

This report has been prepared for the sole use of Midsomer Norton Town Council. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council uses the Rialtas Omega software to maintain its accounting records. The current cashbook relates to the Unity Trust bank account. Further surplus funds are held on deposit with CCLA in their Public-Sector Deposit Fund (PSDF) to generate a reasonable level of interest for the Council.

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have:

- Agreed the opening trial balance detail in the financial software with the closing 2021-22 Statement of Accounts / AGAR;
- Ensured that the cost centre and nominal ledger income and expenditure coding structure remains appropriate for purpose;
- Ensured that the ledger remains in balance at the date of audit;
- Checked and agreed a further sample of transactions from September 2022 to March 2023 between the accounting records and the Unity Trust bank account;
- Checked and agreed detail on the bank account reconciliations as at 31 March 2023, noting the absence of formal reconciliations and the previously established Financial Regulation (FR) 2.2 check since December 2022;
- Noted that surplus funds (mainly relating to the PWLB loan for the Town Hall refurbishment, and the first tranche of the 2023-24 Precept) are now invested in the PSDF to optimise interest earnings, with only a working balance kept in the Unity Trust current account. Funds held in the PSDF can be quickly called down as required. We regard this as prudent practice.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust set of corporate governance documentation in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders (SO) and that, as far as we are reasonably able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We have: -

- Completed our review of the minutes of meetings of the Full Council and the former Finance & Operations (F&O) Committee for the financial year to determine whether any issues exist that may have an adverse effect on the Council's future financial stability;
- Noted that the Council has reviewed, revised and adopted both Standing Orders (SO) and Financial Regulations (FR) at the May 2022 meeting. We note that these now accord with the latest versions of the NALC Model Forms;

- Noted that, following the resignation of the former Clerk, the Council will no longer meet the qualifying criteria for adopting the General Power of Competence and will instead need to rely on Section 137 powers until a suitably qualified Clerk is permanently recruited;
- Noted that the Exercise of Public Rights for the 2021-22 Accounts was correctly undertaken during the summer of 2022;
- Noted that the Council continues to show a good level of compliance with the Transparency Code 2015.

While reviewing the process for approving the 2022-23 Precept we noticed an anomaly between the amount approved by Council (7 February 2022 meeting, Minute 61), and the amount actually received during 2022-23. On discussing this with the Locum Clerk, it was determined that the amount agreed was correct, but that the original authorising Minute incorrectly approved the total as the Precept rather than the Budget. Therefore, an amendment to the above Minute should be formally made by the Council to correct the historical record. We confirm, however, that no income has been lost due to this error.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observation about the accuracy of the Minutes relating to the 2022-23 Precept.

Review of Expenditure and VAT

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt where no other form of invoice is available;
- The correct expense codes have been applied to invoices when processed;
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have undertaken a sample test of transactions over £500, checking actual invoices to Omega records and bank statements with no issues arising. We note above that procedures relating to internal check and approval have lapsed during the last quarter of 2022-23 due to the sudden loss of key staff, and such practices need to be re-established as soon as permanent staff can be appointed.

We have reconciled 2022-23 VAT returns to both the accounting records and income receipts, with no issues arising, noting that the Quarter 4 balance is properly recorded as a Debtor in the Trial Balance as at 31 March 2023.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health & safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition.

We note that the Council continues to maintain its Risk Register on the LCRS risk assessment software. This was approved at the May 2022 Council meeting, which satisfies the requirements for at least an annual review. However we have previously noted that the management of all identified risks were allotted to the former Clerk and Deputy Clerk. Clearly, therefore, the established Risk Register will require considerable revision during 2023-24.

We have examined the Council's insurance policy for the current year with cover provided by RSA via WPS CouncilGuard on a 3-year Long Term Agreement basis, and note that cover is in place with Public Liability set at £15M, Employers Liability set at £10M and Fidelity Guarantee cover at £500,000, with a range of other covers that we feel are appropriate to a Council of this size.

We note that an additional policy has been taken out with Aviva to cover the Town Hall refurbishment works.

We note that safety inspections of playparks are undertaken by BANES.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observation about a complete review of the Council's Risk Register once permanent senior staff have been appointed.

Budgetary Control & Reserves

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the Unitary Authority, that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans.

We note that the Council set a 2023-24 Precept of £469,189.93 at its February 2023 meeting, based on the recommendations of the Finance Working Group. We note the Council's stated intention to review its 2023-24 Budget to accord with the Precept.

The Omega system records Earmarked Reserves (EMR's) as at 31 March 2023 of £746,028, being largely made up of Town Hall refurbishment costs. When compared to the year-end cash balances of £967,729 this leaves a General Reserve of £221,701. This represents around 47.25% of the Precept against a Best Practice level of 50%. We regard the reserves held as prudent to meet any unforeseen eventualities.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Review of Income

The Council receives very limited income other than by way of its annual precept together with small amounts from the Allotment Association and other occasional income.

We have undertaken a sample check of income transactions between Omega records and bank statements, with no issues arising.

We have not seen any specific evidence of an annual review of fees and charges as required by Financial Regulation 9.3.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than the need to undertake an annual review of fees and charges.

Petty Cash Account

We are required to express a view on the operation of petty cash accounts as part of the Internal Audit Certification process in the AGAR.

We note that, further to our observations in previous reports, this redundant account has still not been formally closed. The Trial Balance as at 31 March 2023 still shows a small balance of £2.28, although this amount has been spent down by the purchase of postage stamps. At the time of audit a small balance of £0.13 remains in cash. This account needs to be formally closed (as was agreed by the former Finance and Operations Committee in November 2021) and the balance formally written off during 2023-24, although the effect on the 2022-23 accounts is immaterial.

Conclusions

No issues arise in this area warranting formal comment or recommendation, although action needs to be taken to resolve this long-outstanding issue during 2023-24.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HMRC legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme in relation to employees' contribution banding percentages.

To meet these objectives, we have examined the payroll procedures in place and the physical payments made to staff, as detailed below, by reference to the September 2022 and March 2023 payroll documentation managed by Codex Absolute Ltd. We have test-checked payments to individual staff, as well as payments of deductions to HMRC and the Avon Pension Fund, with no issues arising.

Conclusions

No issues arise in this area warranting formal comment or recommendation. We will undertake substantive work in this area during our 2023-24 reviews, once the staffing establishment has stabilised.

Investments and Loans

Our objectives here are to ensure that the Council is taking appropriate action to optimise its interest earning potential on available funds. We note that Council considered and re-adopted its Investment Strategy at the May 2022 Full Council meeting with surplus funds deposited in the CCLA Public Sector Deposit Fund to earn a rate of return. We have checked and agreed transactions on that account between CCLA documentation and the accounting system for the financial year with no issues arising.

The Council has two loans in place with the Public Works Loans Board (PWLB). We have verified the balances outstanding at 31 March 2023 to the prime records supplied by PWLB, with no issues arising.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Review of Fixed Asset Registers

The Governance and Accountability Manual (GAM) requires councils to develop and maintain a register of all assets. The Annual Return requires disclosure of the value of assets retained by the Council as at 31st March annually, and requires asset values to be reported at cost price or, where that value is unknown, a nominal value of £1. Annual Return values are then updated to reflect the cost of any new acquisitions or deletions / disposals during the year.

We discussed the current state of the Asset Register with the Locum Clerk during our visit. We note that the Locum Clerk is undertaking a review of the Council's assets, applying a prudent *de minimis* level of £100 which we have always felt reasonable. However, at the time of audit this work is not concluded, so we are unable to give a positive assurance on this aspect of the 2022-23 AGAR. We do believe, though, that the final figure resulting from this exercise will give a much more accurate valuation of the Council's asset holdings.

We believe it to be Best Practice to keep a photographic record of significant assets, to assist insurance claims in the case of loss by either theft or damage, and we suggest that Council considers the establishment of such a record.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Statement of Account and AGAR

The AGAR incorporates the Council's Governance Assurances and Annual Accounts, which are subject to external audit scrutiny and verification.

Conclusions

Based on our programme of work detailed above, we have duly signed off the Internal Audit Certificate at Page 3 of the AGAR, assigning appropriate assurances in all relevant categories.

Rec. No	Recommendation	Response
No recommendations made		